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C O N F I D E N T I A L CARACAS 002060

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [VE](#)

SUBJECT: REVOLUTION FIRST AT GOV DEPOSIT GUARANTEE FUND

REF: CARACAS 2034

Classified By: ECON COUNSELOR RICHARD M. SANDERS FOR REASON 1.5 (D)

SUMMARY

[11.](#) (U) FOGADE (Banking Protection Guarantee Fund, FDIC-equivalent) President Jesus Caldera Infante proposed raising the assessment (paid by banks) on all bank account deposits from 0.5% to 2.0%. Industry experts say that this will force up interest rates, though Caldera disagrees. With the extra income, he proposed that 30% of FOGADE's income be designated for spending on social needs, and announced that several employees have been fired for not being supportive of social development. A fired employee says the dismissal was solely for signing the presidential recall petition. END SUMMARY.

FOGADE OFFERS FUNDS FOR SOCIAL SPENDING, FIRES EMPLOYEES

[12.](#) (U) Jesus Caldera Infante, former appeals court judge and President of FOGADE since May 7, testified before the Finance Committee of the National Assembly on June 14 and proposed that his institution take on a more activist role in social development within Venezuela. He suggested spending 30% of its income on social needs, and also to quadruple the deposit assessment (a quarterly premium on all new banking deposits, to help guarantee funds in bank accounts) - from 0.5% to 2% - to earn more money for that end. He intends that the money "be designated to the ends and commitments of the State: health, education, housing, educational quality of life, encouragement of social and productive work, popular alternative economy, the creation of culture, and to perform teaching and academic exercises so that Venezuelans in the informal economy and who not deposit or save in the financial system do so." Caldera, during his testimony, cited his interpretation of the Venezuelan Constitution, the Inter-American Human Rights Convention and the International Pact on Social Rights (apparently the UN International Covenant on Economic, Social and Cultural Rights), and stated that they should have precedence over the existing Banking Law.

[13.](#) (U) Caldera also stated that FOGADE had fired a number of people, but did not specify how many, saying only that "We have removed 80% of the previous structure," apparently meaning management. He blamed the fired managers for "dragging along a culture not consistent with the project laid out in the Constitution for the social development of the nation." Caldera also requested greater autonomy for FOGADE, but also for more authority in the presidency. Finally, he discussed the recent donation by FOGADE of over 300 pieces of real property (acquired following the 1994-5 banking failures) to "Mision Vuelvan Caras," a GOV anti-unemployment project, claiming that writing them off as a loss was not harmful to Venezuela.

PRIVATE SECTOR RESPONDS

[14.](#) (U) Caldera gave assurances, based on an internal study, that the measures would not cause interest rates to rise, as had happened in the past when premiums have been hiked. The study took less than a month, and he justified such speed by the "revolutionary and bolivarian management" by characterizing them as "qualified and very expert." National Banking Association (ABV) President Aristides Maza, also in Finance Committee testimony, countered that lending interest rates would rise 2% as a direct result of the premium increase. "As the policy of everyone, both the public and private sectors, is to lower the lending rate, then this proposal seems incongruous."

[15.](#) (C) Caldera asserted that the banking sector "is unqualified for public service, that is, the collective

interest is tended by a private entity," therefore FOGADE should act in its stead to force a public service role upon

it. Maza disputed this idea, and said the role of FOGADE is to protect the public interest by managing their assets. Maza warned that "one cannot define the financial sector as a public service given that it is a mercantile activity." Oscar Carvallo, head economist of the ABV, privately told econoff that banking as a public service is "an aberration," given that banks must discriminate (by choosing to whom to loan money) in order to survive. He also believes that this theme of public service is the beginning of a plan to place additional requirements on banks. That may have begun, as the GOV just required all banks to provide restrooms to their clients, and has recently discussed publicly the idea of setting banks' working hours. Carvallo suggested that the GOV is placing laws and "justice" (its own definition of it, that is) on equal footing, and applying the one which is more expeditious at the moment.

16. (SBU) One of the fired FOGADE employees, Anna Kosa (a former Embassy employee), spoke publicly about the firings, calling them politically motivated. She stated that 50 people had been released, all of whom had signed the presidential referendum petition. This followed a list published by members of Bolivarian Circles, listing all FOGADE employees and their perceived political allegiance, as well as harassing phone calls and notes. She stated that her dismissal letter, signed by Caldera, gave no reason for the termination.

COMMENT

17. (C) Caldera, newly named to the job, may have been posturing for the Congress (and the cameras). Nonetheless, this proposal represents yet another effort to divert state institutions away from their primary mission and turn them into piggy banks for the social "revolution." Though the amount of money involved (at 30% of current budget, FOGADE would only have \$42 million for social projects) pales in comparison to the PDVSA social fund (see ref), it amounts to a disguised tax increase on the banking sector, which would inevitably be passed on to consumers who already pay a 0.5% tax on all withdrawals. It also raises the issue of decapitalizing FOGADE at a time in which several small domestically-owned banks are considered to be fairly wobbly. If they go under and FOGADE's resources have been diverted to social (read: electoral) spending, any bailout of depositors would be that much more difficult.
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